

Holton Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Holton Public Schools

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This section of Holton Public School's Annual Financial Report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand Holton Public School financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds, the General Fund and 2006 Building Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditor's opinion, (3) the basic financial statements, and (4) the required supplementary information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

Reporting the School District as a Whole – District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provided a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of Fiduciary Assets and Liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. The net assets of the District at June 30, 2007 amounted to approximately \$3.67 million. Table 1 shows a condensed breakdown of the net assets.

Table 1 Condensed Statement of Net Assets		
	Governmental Activities June 30, 2006 (as restated)	Governmental Activities June 30, 2007
Current assets	\$ 9,287,081	\$ 4,460,669
Capital assets, net	14,617,404	18,485,616
Other non-current assets	371,619	357,331
Total assets	24,276,104	23,303,616
Current liabilities	4,297,881	3,552,092
Non-current liabilities	16,479,654	16,080,625
Total liabilities	20,777,535	19,632,717
Net assets		
Invested in capital assets, net of related debt	2,401,014	2,503,137
Restricted for Debt Service	305,304	168,386
Unrestricted	792,251	999,376
Total net assets	\$ 3,498,569	\$ 3,670,899

The largest portion of the District's net assets reflects investment in capital assets (e.g., land, buildings and improvements, fiber optics, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Two significant changes affected the Condensed Statement of Net Assets. The first is the near completion of the 2006 Athletic Bond project. The District has a small portion of the project outstanding in constructing the new athletic complex with renovations to the middle and high schools. The entire project is \$7.64 million. The second is the reduction in capital projects from the 1998 Middle School Project. The Capital Projects Fund was set up for the completion of the renovation and remodeling of the middle/high school buildings. The remaining balance was used for technology enhancements in the middle school and completed in the 2006-2007 school year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2007.

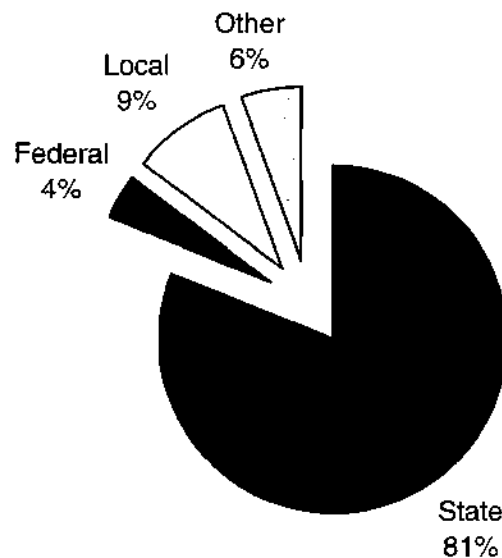
Table 2		
Statement of Activities		
	Governmental Activities June 30, 2006 (as restated)	Governmental Activities June 30, 2007
Revenues		
Program Revenues		
Charges for services	\$ 316,733	\$ 298,145
Operating grants and contributions	1,823,167	1,861,995
General revenues		
Property taxes	1,298,272	1,596,805
Unrestricted grants and contributions	6,700,354	6,839,069
Other	232,715	227,124
Total revenues	10,371,241	10,823,138
Expenses		
Instruction	5,585,122	5,562,136
Support services	3,282,905	3,335,807
Food services	354,276	372,199
Athletics	159,706	161,345
Interest on long-term debt	556,660	774,885
Unallocated depreciation and amortization	491,410	444,436
Total Expenses	10,430,079	10,650,808
Increase (decrease) in net assets	(58,838)	172,330
Net assets at beginning of year	3,557,407	3,498,569
Net assets at end of year	\$ 3,498,569	\$ 3,670,899

The net assets of the District increased by \$172,330 during the 2006-2007 year. The cost of the District's governmental activities for the year was \$10.6 million. Those who benefited from food service, athletic programs, and support services, mostly made up of centralized transportation, paid service charges of \$298 thousand. Operating grants and contributions of \$1.9 million were for programs paid for by other governments and organizations. The other resources were provided with property tax, state pupil foundation allowance (state aid), investment earnings and other miscellaneous revenues.

Changes in the Statement of Activities were minimal with an increase in tax revenue. The rate for debt service increased from 5.48 to 7.0 mills for the 2006-2007 school year due to the passage of the Athletic Bond proposal establishing the 2006 Capital Projects Fund.

A substantial portion (81%) of the District's revenues is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Table 3 depicts the breakdown of the sources of General Fund Revenue for the District.

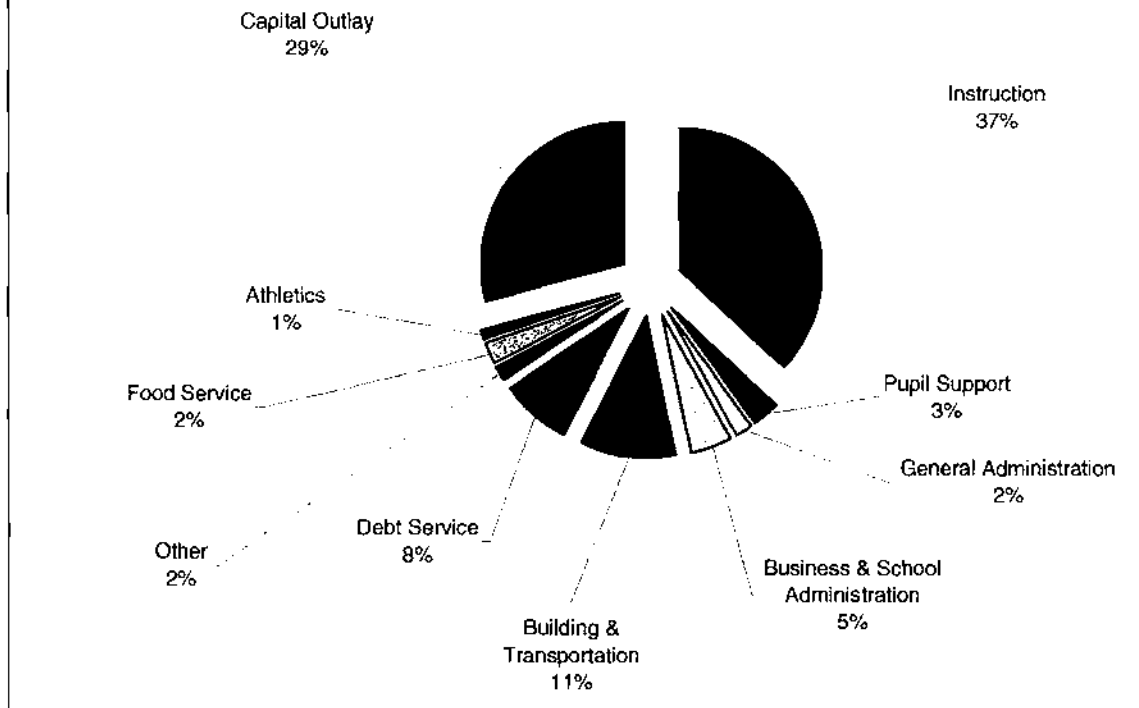
Table 3
Sources of Revenues
for Fiscal Year 2006/2007



As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

As Table 4 depicts, 40% of the District's total resources in all funds are spent on instruction and pupil support services. Another 7% is spent on administrative and business services necessary to efficiently operate the District, while 11% is spent for transportation and maintenance, including utilities and custodial services. Debt service contributes to 8% of the total budget, which includes principal and interest. Note this year, there is an increase in capital outlay up from 23% in 2005-2006 to 29% in 2006-2007. This is the result of the 2006 Athletic Capital Projects Fund for the completion of our athletic complex. The final 5% is spent on other interest and additional support services including athletics and food service.

Table 4
Expenditures for Fiscal year 2006/2007



Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. The general fund equity increased by \$356,192 during the 2006/07 fiscal year, resulting in fund equity of \$983,984 at year end. The primary reasons for the change in fund balance are as follows:

Factors Impacting Operations

Student Enrollment – The student population remained constant at all levels. Enrollment numbers were just under the prediction with a blended count of 1098 students. Throughout the school year district administrators across Michigan, including this administration shouldered the continued threat of a pro-rata in per pupil funding ranging from \$100 - \$200 per pupil. However, the foundation allowance remained as predicted at a rate of \$7,085 per pupil.

Food Service - The food service program for the 2006/2007 school year did not require additional funding from the general fund for the third straight year. Revenues generated from the food service department were greater or equal to the expenditures for the program. For the third year in a row, the food service fund was charged an indirect cost rate to supplement the general fund for operations and maintenance. For 2005-2006 the food service fund was charged \$17,756 while \$25,000 was charged for services in 2006-2007.

Investments – The return on investments was greater than expected for the 2006-2007 school year. This added an additional \$49,165 in revenue.

Medicaid – During the 2006-2007 school year, Holton Public Schools received an additional \$50,808 than projected for Medicaid billing. This function is coordinated with the Muskegon Area Intermediate School District and is a reflection of updating prior year billing cycles and methods.

Insurance – Holton Educational Support Personnel and the Administrative group changed insurance coverage to a High Deductible Health Plan through Set Seg and Priority Health, respectively. Members of these two groups also contributed to the costs of the health insurance premiums. This change resulted in savings to the district of approximately \$156,000.

Special Education Billback and Act 18 – This district participates in a consortium with the Muskegon Area Intermediate School District for special education services, transportation and billing. The district saw a reduction in billback charges of \$84,000.

Energy Costs - With the uncertainty of rising fuel costs, the district participated in the Michigan Schools Energy Cooperative to assist with regulating energy costs. The district also participated in E-rate funding and worked diligently to receive the best pricing on transportation fuel. To ensure enough resources to meet the needs of the volatile market, the district allocations for these areas exceeded actual expenditures by \$40,000.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements).

Variances between the final budget amounts and actual amounts were largely due to the following:

- At-risk revenue lower due to deferring a portion for funds unspent by year end.
- Medicaid was higher than predicted.
- Reduction in Unemployment Insurance - \$35,000.
- Restricted program allocations carried forward to 2007-2008 - \$141,000.
- Reduction in energy costs allocations - \$40,000.
- Reduction in transfer to Athletic Fund - \$11,000.
- Student Services - Special Education billback expenditures decreased for services provided by the ISD and other local districts - \$ 84,000.
- E-Rate Credit resulted in a reduction of line charges of \$11,366.

Original vs. Amended Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget semi-annually during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$305,202 net change in the total General Fund revenue budget from the beginning to the end of the year. The significant changes in funding sources were as follows:

- The **local source** revenue budget increased by \$15,446. This increase was attributed to interest earnings.
- The **state source** revenue budget increased by \$218,720. The increase was due to prior year adjustments to state aid, pupil counts, and added funding for Middle School Math, At-Risk, Declining Enrollment, and Equity payments.
- The **federal source** revenue budget increased by \$18,311. The main reason for the increase was the receipt of an IDEA carryover grant.
- The **other revenue** budget increased by \$52,725. This increase is primarily due to financing sources for the purchase of new copy equipment and an increase in transfers from the food service fund.

Expenditures – The significant changes by functional category are as follows:

- The *instructional services* budget increased by over \$220,000. This increase was primarily due to the addition of an elementary teaching position, secondary offerings during prep periods, and grant allocations.
- The *pupil support services* budget had a net increase of \$31,580 due to the addition of a high school social worker mid year.
- The *transportation* budget had a net increase of \$62,525 mainly due to accounting code changes for payments to other Michigan public schools and the ISD.
- The *central services* budget increased by \$102,067. This increase is the result of the purchase of new copy equipment and the allocation award of a CTE grant.
- The *transfers and others* budget noted a decrease of \$291,067. This reduction is primarily due to the change in accounting code structure by the Michigan Department of Education. As noted, payments made to other Michigan public schools and ISDs must be allocated in the function code associated with the service.

Capital Assets

At June 30, 2007, the School District had \$18,485,616 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$3,804,212 from last year.

	2006 (as restated)	2007
Land	\$ 209,670	\$ 209,670
Construction in progress	2,924,531	0
Building and building improvements	11,063,500	17,784,845
Buses and other vehicles, furniture and equipment	<u>419,703</u>	<u>491,101</u>
Total capital assets	<u>\$14,617,404</u>	<u>\$18,485,616</u>

Debt

At the end of this year, the School District had \$16,329,181 in bonds outstanding versus \$16,745,873 in the previous year – a decrease of \$416,692 due to continued payments for the debt service. Other obligations that were completed in 2006-2007 include a building improvement loan, land contract, and capital lease. The district continues to participate in an education interconnection and consortium financing agreement. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budget

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 budget was adopted in June 2007, based on an estimated number of students that will be enrolled in September 2007. Approximately 81 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007/2008 school year, we anticipate that the fall student count could be slightly higher than the estimate used in creating the 2007/2008 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

The State periodically holds a revenue-estimating conference to estimate revenues. At this time, the State is not in agreement on the per pupil funding for 2007-2008. The original budget was adopted with an estimated \$200 per pupil increase and a reduction of 18 students.

During the spring of 2007, the School District began discussions in settling a labor contract with the support staff which expired June 30, 2007. The School District is also in the fifth year of negotiations with the teachers. Their contract expired on June 30, 2003. The cost of a settlement is unknown at this time. However, settlement projections are represented in the 2007-2008 budget.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Department at the Holton Public Schools Administrative Office, Holton, Michigan 49425.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 13, 2007

Board of Education
Holton Public Schools
Holton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools (the School District), as of and for the year ended June 30, 2007, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holton Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 13, 2007 on our consideration of Holton Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - x and page 25, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Holton Public Schools
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,717,401
Receivables	144,171
Due from other governmental units	1,597,293
Inventories	<u>1,804</u>
Total current assets	4,460,669
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	209,670
Depreciable	18,275,946
Bond issuance costs, net	217,168
Note and interest receivable	<u>140,163</u>
Total noncurrent assets	<u>18,842,947</u>
Total assets	23,303,616
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	1,550,000
Accounts payable and accrued liabilities	1,024,693
Due to other governmental units	322,140
Deferred revenue	114,506
Bonds and other obligations, due within one year	<u>540,753</u>
Total current liabilities	3,552,092
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	16,059,943
Accrued interest	<u>20,682</u>
Total noncurrent liabilities	<u>16,080,625</u>
Total liabilities	<u>19,632,717</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,503,137
Restricted for debt service	168,386
Unrestricted	<u>999,376</u>
Total net assets	<u>\$ 3,670,899</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

		Program Revenue		Net (Expense)
				Revenue and
				Changes in
				Net Assets
<i>Functions/Programs</i>	<u>Expenses</u>	<u>Charges for</u>	<u>Operating grants</u>	<u>Governmental</u>
		<u>services</u>	<u>and contributions</u>	<u>activities</u>
Governmental activities				
Instruction	\$ 5,562,136	\$ -	\$ 1,207,962	\$ (4,354,174)
Support services	3,335,807	161,195	358,615	(2,815,997)
Food services	372,199	104,800	291,530	24,131
Athletics	161,345	32,150	-	(129,195)
Interest on long-term debt	774,885	-	3,888	(770,997)
Unallocated depreciation and amortization	444,436	-	-	(444,436)
Total governmental activities	<u>\$ 10,650,808</u>	<u>\$ 298,145</u>	<u>\$ 1,861,995</u>	<u>(8,490,668)</u>
General revenues				
Property taxes levied for				
General purposes				628,900
Debt service				967,905
Grants and contributions not restricted to specific programs				6,839,069
Investment earnings				196,524
Miscellaneous				30,600
Total general revenues				<u>8,662,998</u>
Change in net assets				172,330
Net assets at July 1, 2006, as restated				<u>3,498,569</u>
Net assets at June 30, 2007				<u>\$ 3,670,899</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 1,982,472	\$ 387,813	\$ 347,116	\$ 2,717,401
Receivables	144,171	-	-	144,171
Due from other governmental units	1,591,745	-	5,548	1,597,293
Due from other funds	3,619	-	12,926	16,545
Inventories	-	-	1,804	1,804
Total assets	<u>\$ 3,722,007</u>	<u>\$ 387,813</u>	<u>\$ 367,394</u>	<u>\$ 4,477,214</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	\$ 1,550,000	\$ -	\$ -	\$ 1,550,000
Accounts payable	20,475	141,245	31,768	193,488
Accrued liabilities	717,976	-	-	717,976
Due to other governmental units	322,140	-	-	322,140
Due to other funds	12,926	-	3,619	16,545
Deferred revenue	114,506	-	-	114,506
Total liabilities	<u>2,738,023</u>	<u>141,245</u>	<u>35,387</u>	<u>2,914,655</u>
Fund balances				
Reserved				
Inventories	-	-	1,804	1,804
Debt service	-	-	302,297	302,297
Capital projects	-	246,568	-	246,568
Unreserved				
Undesignated				
General Fund	983,984	-	-	983,984
School service	-	-	27,906	27,906
Total fund balances	<u>983,984</u>	<u>246,568</u>	<u>332,007</u>	<u>1,562,559</u>
Total liabilities and fund balances	<u>\$ 3,722,007</u>	<u>\$ 387,813</u>	<u>\$ 367,394</u>	<u>\$ 4,477,214</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2007

Total fund balance—governmental funds	\$	1,562,559
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Amounts reported for governmental activities in the Statement of Net Assets
 are different because:

Capital assets used in governmental activities are not current financial resources and
 are not reported in the governmental funds.

Cost of capital assets	\$ 24,847,961	
Accumulated depreciation	<u>(6,362,345)</u>	18,485,616

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	263,616	
Accumulated amortization	<u>(46,448)</u>	217,168

Other long-term note and interest receivable in governmental activities is not reported in the
 governmental funds.

140,163

Accrued interest in governmental activities is not reported in the governmental funds.

(133,911)

Long-term liabilities in governmental activities are not due and payable in the current period
 and are not reported in the governmental funds.

Bonds and notes payable	(16,565,696)	
Early retirement incentives	<u>(35,000)</u>	<u>(16,600,696)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 3,670,899

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2007

	General Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 628,900	\$ -	\$ 967,905	\$ 1,596,805
Investment earnings	69,165	107,221	20,138	196,524
Fees and charges	152,184	-	133,713	285,897
Other	25,625	-	3,237	28,862
Total local sources	875,874	107,221	1,124,993	2,108,088
State sources	7,628,545	-	25,377	7,653,922
Federal sources	390,457	-	266,153	656,610
Total revenues	8,894,876	107,221	1,416,523	10,418,620
EXPENDITURES				
Instruction	5,527,136	-	-	5,527,136
Support services	3,318,082	-	-	3,318,082
Food services	-	-	372,199	372,199
Athletics	-	-	161,345	161,345
Debt service				
Principal	-	-	425,000	425,000
Interest and other charges	-	-	762,288	762,288
Capital projects	-	4,357,464	15,587	4,373,051
Total expenditures	8,845,218	4,357,464	1,736,419	14,939,101
Excess (deficiency) of revenues over (under) expenditures	49,658	(4,250,243)	(319,896)	(4,520,481)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	400,673	-	-	400,673
Loan proceeds	96,800	-	-	96,800
Transfers in	25,000	-	129,195	154,195
Transfers out	(129,195)	-	(25,000)	(154,195)
Transfers to other governmental units and other transactions	(86,744)	-	-	(86,744)
Total other financing sources (uses)	306,534	-	104,195	410,729
Net change in fund balances	356,192	(4,250,243)	(215,701)	(4,109,752)
Fund balances at July 1, 2006	627,792	4,496,811	547,708	5,672,311
Fund balances at June 30, 2007	\$ 983,984	\$ 246,568	\$ 332,007	\$ 1,562,559

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2007

Net change in fund balances—total governmental funds \$ (4,109,752)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (444,436)	
Capital outlay	<u>4,311,818</u>	3,867,382

Losses on the disposition of capital assets reported in the Statement of Activities are not reported as expenditures in the governmental funds.	(17,346)
---	----------

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not recorded in the governmental funds until received.	3,888
--	-------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.	(96,800)
--	----------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	495,048
--	---------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	64,910
---	--------

Early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>(35,000)</u>
---	-----------------

Change in net assets of governmental activities	<u><u>\$ 172,330</u></u>
---	--------------------------

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

	Agency funds
ASSETS	
Cash and cash equivalents	\$ 73,800
	<u> </u>
LIABILITIES	
Deposits held for others	\$ 73,800
	<u> </u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Holton Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The *2006 Building Capital Projects Fund* accounts for the use of the proceeds from the 2006 School Building and Site bonds. The bonds were approved for issuance on November 8, 2005 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	16.8168
Debt service funds - Homestead and non-homestead	7.0000

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	25-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—PRIOR PERIOD ADJUSTMENT

An error reported in the School District's previously issued financial statements was corrected this year. The June 30, 2006 governmental activities net assets has been restated to correct this error.

The restatement of net assets as of June 30, 2006 is as follows:

Net assets at June 30, 2006	\$ 3,562,569
Increase in accumulated depreciation due to error in depreciation	<u>(64,000)</u>
Net assets at July 1, 2006, as restated	<u>\$ 3,498,569</u>

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Business Manager is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

The School District did not have significant expenditure budget variances.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

School Bond Construction Compliance

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the capital projects funds from the inception of the funds through June 30, 2007.

	1998 Building Capital Projects Fund	2006 Building Capital Projects Fund
Revenue and bond proceeds	\$ 11,361,497	\$ 7,868,846
Expenditures	11,361,497	7,622,278

NOTE D—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had only cash and cash equivalents.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. In accordance with its investment policy, the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$2,712,556 of the School District's bank balance of \$2,912,556 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 209,670	\$ -	\$ -	\$ 209,670
Construction in progress	2,924,531	-	2,924,531	-
Total capital assets, not being depreciated	3,134,201	-	2,924,531	209,670
Capital assets, being depreciated:				
Buildings and improvements	16,078,065	7,107,965	117,563	23,068,467
Equipment	724,490	68,491	13,556	779,425
Vehicles	730,506	59,893	-	790,399
Total capital assets, being depreciated	17,533,061	7,236,349	131,119	24,638,291
Less accumulated depreciation:				
Buildings and improvements	5,014,565	369,274	100,217	5,283,622
Equipment	499,820	24,859	13,556	511,123
Vehicles	535,473	32,127	-	567,600
Total accumulated depreciation	6,049,858	426,260	113,773	6,362,345
Total capital assets, being depreciated, net	11,483,203	6,810,089	17,346	18,275,946
Capital assets, net	\$ 14,617,404	\$ 6,810,089	\$ 2,941,877	\$ 18,485,616

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	\$ 263,616	\$ -	\$ -	\$ 263,616
Less accumulated amortization	28,272	18,176	-	46,448
Bond issuance costs, net	\$ 235,344	\$ (18,176)	\$ -	\$ 217,168

Amortization

Amortization expense has been charged as unallocated amortization.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 3,619
Other governmental funds	General Fund	<u>12,926</u>
		<u>\$ 16,545</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$129,195 to the Athletics Fund to finance operations. The Food Service Fund transferred \$25,000 to the General Fund to finance indirect costs.

NOTE H—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
State aid anticipation note				
2005/2006 2.92% due August 2006	\$ 1,300,000	\$ -	\$ 1,300,000	\$ -
2006/2007 3.68% due August 2007	<u>-</u>	<u>1,550,000</u>	<u>-</u>	<u>1,550,000</u>
	<u>\$ 1,300,000</u>	<u>\$ 1,550,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,550,000</u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include office equipment and school bus loans payable and Education Interconnection and Consortium Financing Agreement.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
Bonds	\$ 16,745,873	\$ -	\$ 416,692	\$ 16,329,181	\$ 465,749
Other obligations	218,070	96,800	78,355	236,515	60,004
Early retirement incentives	-	35,000	-	35,000	15,000
	<u>\$ 16,963,943</u>	<u>\$ 131,800</u>	<u>\$ 495,047</u>	<u>\$ 16,600,696</u>	<u>\$ 540,753</u>

In the previous schedule, the additions for other obligations include \$59,893 for a school bus loan and \$36,907 for office equipment.

General obligation bonds consist of the following:

1998 General Obligation Bond partially refunded June 2005; final payment due May 2008; plus interest at 4.5% payable semi-annually	\$ 325,000
2005 Refunding General Obligation Bond payable in annual installments ranging from \$345,000 to \$450,000 due May 2009 to 2028; plus interest ranging from 3.5% to 5% payable semi-annually	8,545,000
Plus issuance premium	120,271
Less deferred amount on refunding	(285,782)
2006 Building and Site Bond payable in annual installments ranging from \$130,000 to \$655,000 due May 2008 to 2030; plus interest ranging from 3.5% to 4.4% payable semi-annually	7,515,000
Less issuance discount	(9,789)

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds—Continued

Durant obligations payable in annual installments ranging from \$14,209 to \$95,473 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	\$ <u>119,481</u>
Total bonded debt	16,329,181

Other obligations

Office equipment loan payable in quarterly installments of \$3,305 through September 2009; including interest at 4.19%	28,248
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School bus loans payable in aggregate quarterly installments of \$9,836 through December 2011; including interest ranging from 3.33% to 4.54%	132,343
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Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,654 due March 2008 to 2013	<u>75,924</u>
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Total other obligations	236,515
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Early retirement incentives	<u>35,000</u>
	<u>\$ 16,600,696</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

The annual requirements of principal and interest to amortize bonded debt and other obligations outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 525,753	\$ 685,354	\$ 1,211,107
2009	547,806	667,183	1,214,989
2010	592,652	671,899	1,264,551
2011	561,226	629,304	1,190,530
2012	562,342	609,618	1,171,960
2013-2017	3,101,217	2,678,002	5,779,219
2018-2022	3,825,000	1,961,145	5,786,145
2023-2027	4,680,000	1,115,769	5,795,769
2028-2030	2,345,000	187,296	2,532,296
	<u>\$ 16,740,996</u>	<u>\$ 9,205,570</u>	<u>\$ 25,946,566</u>

NOTE J—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE J—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007, was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$829,000, \$753,000, and \$768,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE K—CONTINGENCIES

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE L—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 81 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE M—SUBSEQUENT EVENT

On August 20, 2007, the School District received the proceeds of a \$1,400,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2008 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 804,250	\$ 819,696	\$ 875,874	\$ 56,178
State sources	7,517,892	7,736,612	7,628,545	(108,067)
Federal sources	391,907	410,218	390,457	(19,761)
Incoming transfers and other transactions	407,486	460,211	522,473	62,262
Total revenues	9,121,535	9,426,737	9,417,349	(9,388)
EXPENDITURES				
Instruction				
Basic programs	4,075,053	4,109,776	4,005,914	103,862
Added needs	1,405,775	1,591,064	1,521,222	69,842
Support services				
Pupil	350,994	382,574	358,132	24,442
Instructional staff	75,414	103,378	87,169	16,209
General administration	279,772	288,215	280,095	8,120
School administration	452,551	454,917	449,625	5,292
Business	236,438	265,231	269,257	(4,026)
Operations and maintenance	977,302	986,197	899,192	87,005
Pupil transportation services	711,019	773,544	729,087	44,457
Central	157,235	259,302	245,525	13,777
Outgoing transfers and other transactions	523,684	232,617	215,939	16,678
Total expenditures	9,245,237	9,446,815	9,061,157	385,658
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(123,702)</u>	\$ <u>(20,078)</u>	356,192	\$ <u>376,270</u>
Fund balance at July 1, 2006			<u>627,792</u>	
Fund balance at June 30, 2007			<u>\$ 983,984</u>	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 13, 2007

Board of Education and
John Fazer, Superintendent
Holton Public Schools
Holton, Michigan

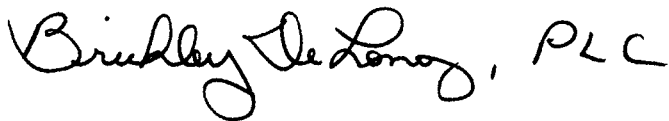
In planning and performing our audit of the financial statements of Holton Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Holton Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCY

Recommendation 1: The allocation of procedures in the cash function should be further segregated in order to strengthen internal controls.

Currently, the Business Manager has the responsibilities to record cash receipts in the general ledger, prepares the bank deposit, prepares the monthly bank reconciliation, prepares cash disbursements checks, signs such checks using the MICR printer, has access to the signature stamp and records checks in the general ledger. The concentration of these responsibilities by an individual increases the possibility for errors or the misappropriation of funds to go undetected.

Further segregation of procedures in the cash function would reduce the opportunity for errors or the misappropriation of funds to go undetected.

Holton Public Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2007

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BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 13, 2007

Board of Education
Holton Public Schools
Holton, Michigan

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated September 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holton Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holton Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Holton Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, as Finding 1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

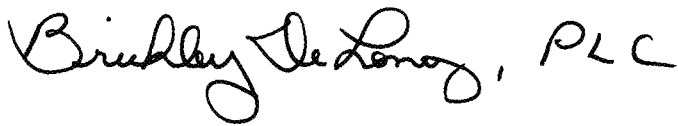
Board of Education
September 13, 2007
Page 2

Compliance

As part of obtaining reasonable assurance about whether Holton Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Holton Public Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Holton Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 13, 2007

Board of Education
Holton Public Schools
Holton, Michigan

Compliance

We have audited the compliance of Holton Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2007. Holton Public Schools' cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Holton Public Schools' management. Our responsibility is to express an opinion on Holton Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Holton Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Holton Public Schools' compliance with those requirements.

In our opinion, Holton Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described as Finding 2 in the accompanying Schedule of Findings and Responses.

Internal Control Over Compliance

The management of Holton Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Holton Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Holton Public Schools' internal control over compliance.

Board of Education
September 13, 2007
Page 2

Internal Control Over Compliance—Continued

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses, as Finding 3, to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses.

Holton Public Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Holton Public Schools' response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated September 13, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued	Cash or	Expenditures			Accrued
			(deferred) revenue July 1, 2006	payments in kind received (cash basis)	(accrual basis)			(deferred) revenue June 30, 2007
					Prior year	Current year	Total	
<i>U.S. Department of Education</i>								
Passed through Michigan Department of Education								
Title I	84.010							
051550 0506		\$ 30,000	\$ (482)	\$ 10,430	\$ 19,088	\$ 10,912	\$ 30,000	\$ -
061530 0506		205,277	29,120	29,120	205,277	-	205,277	-
061530 0607		36,218	-	29,573	-	36,218	36,218	6,645
071530 0607		228,163	-	192,151	-	225,322	225,322	33,171
		499,658	28,638	261,274	224,365	272,452	496,817	39,816
Title V	84.298							
060250 0506		3,440	124	124	3,440	-	3,440	-
060250 0607		769	-	769	-	769	769	-
070250 0607		2,196	-	2,196	-	2,196	2,196	-
		6,405	124	3,089	3,440	2,965	6,405	-
Technology Literacy Challenge	84.318							
074290 0607		2,479	-	2,479	-	2,479	2,479	-
Improving Teacher Quality	84.367							
060520 0506		75,752	13,133	13,133	75,752	-	75,752	-
060520 0607		11,853	-	4,872	-	11,853	11,853	6,981
070520 0607		68,349	-	44,867	-	58,264	58,264	13,397
		155,954	13,133	62,872	75,752	70,117	145,869	20,378
Total passed through Michigan Department of Education		664,496	41,895	329,714	303,557	348,013	651,570	60,194
Passed through Muskegon Area Intermediate School District								
Drug Free Schools and Communities Act	84.186							
072860 0506		4,704	-	107	-	107	107	-
PL 101-476 Flowthrough	84.027							
060450 0506		16,500	-	10,803	-	16,500	16,500	5,697
070450 0607		19,540	-	19,286	-	19,540	19,540	254
		36,040	-	30,089	-	36,040	36,040	5,951
Total passed through Muskegon Area Intermediate School District		40,744	-	30,196	-	36,147	36,147	5,951
Total U.S. Department of Education		705,240	41,895	359,910	303,557	384,160	687,717	66,145

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue	Cash or payments in kind received	Expenditures (accrual basis)			Accrued (deferred) revenue
			July 1, 2006	(cash basis)	Prior year	Current year	Total	June 30, 2007
<i>U.S. Department of Agriculture</i>								
Passed through Michigan								
Department of Education								
National School Lunch and Breakfast								
Entitlement Commodities	10.550	\$ 20,660	\$ -	\$ 20,660	\$ -	\$ 20,660	\$ 20,660	\$ -
Bonus Commodities		1,041	-	1,041	-	1,041	1,041	-
		21,701	-	21,701	-	21,701	21,701	-
Child Nutrition Cluster								
061970 Lunch—Breakfast	10.553	3,898	-	3,898	-	3,898	3,898	-
071970 Lunch—Breakfast		43,590	-	43,590	-	43,590	43,590	-
		47,488	-	47,488	-	47,488	47,488	-
061950 All Lunches	10.555	3,113	-	3,113	-	3,113	3,113	-
071950 All Lunches		25,439	-	25,439	-	25,439	25,439	-
061960 Free and Reduced		17,999	-	17,999	-	17,999	17,999	-
071960 Free and Reduced		150,413	-	150,413	-	150,413	150,413	-
		196,964	-	196,964	-	196,964	196,964	-
Total Child Nutrition Cluster		244,452	-	244,452	-	244,452	244,452	-
Total passed through Michigan								
Department of Education and U.S. Department of Agriculture		266,153	-	266,153	-	266,153	266,153	-
<i>U.S. Department of Health and Human Services</i>								
Passed through Muskegon Area Intermediate School District								
Medical Assistance Program Title XIX 393	93.778	6,297	-	4,484	-	6,297	6,297	1,813
TOTAL FEDERAL ASSISTANCE		\$ 977,690	\$ 41,895	\$ 630,547	\$ 303,557	\$ 656,610	\$ 960,167	\$ 67,958

Holton Public Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007

Governmental Funds financial statements

General Fund	\$ 390,457	
Other governmental funds (includes		
Food Service Fund)	<u>266,153</u>	\$ <u>656,610</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		\$ <u>656,610</u>
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Holton Public Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Holton Public Schools.
2. *One (1)* significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This significant deficiency is not reported as a material weakness.
3. There were *no* instances of noncompliance material to the financial statements of Holton Public Schools disclosed during the audit and as reported in Part B of this schedule.
4. *One (1)* significant deficiency disclosed during the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Part C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for Holton Public Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as a cluster of major programs was:

<u>Name</u>	<u>CFDA Number</u>
U.S. Department of Agriculture Child Nutrition Cluster	10.553 and 10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Holton Public Schools was determined to be a low-risk auditee.

Holton Public Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Cash Segregation of Duties

Criteria: No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: In the cash receipts function, we noted the Business Manager records cash receipts in the general ledger, prepares the bank deposit, and prepares the monthly bank reconciliation. In the cash disbursements function, we noted the Business Manager prepares disbursements, signs checks using the MICR printer, has access to the signature stamp, records checks in the general ledger, and prepares the bank reconciliation.

Cause: The above functions are performed by management level personnel in a small school district that has limited resources to hire additional staff.

Effect: The lack of internal controls could result in the misappropriation of funds or a material misstatement in the accounting records and not be detected.

Recommendation: The allocation of procedures in the cash function should be further segregated in order to strengthen internal controls.

School District Response: The School District will be implementing additional internal control procedures for the 2007/2008 school year by adding additional oversight and monitoring by the Superintendent and Board Finance Committee. The School District will also be assigning a purchasing card to the Administrative Assistant to the Superintendent further segregating the accounts payable function.

Holton Public Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2007 Finding No. 2: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 061970, 071970, 061950, 071950, 061960 and 071960

Award Year Ends: September 30, 2006 and September 30, 2007

Specific Requirement: Special Tests and Provisions, Verification of Free and Reduced Price Applications

Criteria: The School Food Authorities (SFA) must select a sample of applications for verification based on the total number of applications on file on October 31. The Michigan Department of Education notified the SFA that it was required to perform Basic Sampling.

Condition: We noted that the SFA did not verify the correct number of applications as required by Basic Sampling.

Cause: School District personnel misunderstood the procedures for selecting a sample using Basic Sampling.

Questioned Costs: Not determinable

Context: We noted that six applications were selected for verification, whereas eight were required to be verified.

Effect: The School District did not meet the minimum verification requirements. Based on the results of the Coordinated Review Effort performed by the Michigan Department of Education (MDE), the School District was required to verify the correct number of applications.

Recommendation: The School District should review its verification procedures to ensure compliance with National School Lunch Program and MDE requirements.

School District Response: The School District agrees with the finding. The software used to select the correct number of samples has been upgraded and implemented in the Food Service Department.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 No. 3: National School Lunch Program Application Verification Procedures

See Finding 2 in Part C above.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 13, 2007

Michigan Department of Education
Lansing, Michigan

Holton Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006, dated August 18, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 1: Accounting Department Segregation of Duties

Condition: Individuals within the accounting department have concentration of duties within the cash receipts and cash disbursements function.

Recommendation: Segregation of duties in the accounting department should be strengthened.

Current Status: This recommendation was partially implemented during the year ended June 30, 2007. See 2007 Finding No. 1 for a similar finding noted during the single audit for the year ended June 30, 2007.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

Sincerely,



John Fazer
Superintendent

CORRECTIVE ACTION PLAN

September 13, 2007

Michigan Department of Education
Lansing, Michigan

Holton Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Cash Segregation of Duties

Recommendation: The allocation of procedures in the cash function should be further segregated in order to strengthen internal controls.

Action Taken: The School District will be implementing additional internal control procedures for the 2007/2008 school year by adding additional oversight and monitoring by the Superintendent and Board Finance Committee. The School District will also be assigning a purchasing card to the Administrative Assistant to the Superintendent further segregating the accounts payable function.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2007 Finding No. 2: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 061970, 071970, 061950, 071950, 061960 and 071960

Award Year Ends: September 30, 2006 and September 30, 2007

Recommendation: The School District should review its verification procedures to ensure compliance with National School Lunch Program and MDE requirements.

Action Taken: The software used to select the correct number of samples has been upgraded and implemented in the Food Service Department.

SIGNIFICANT DEFICIENCIES

See Finding 2 in Part C above.

If the Michigan Department of Education has questions regarding this plan, please call John Fazer at (231) 821-1700.

Sincerely,

A handwritten signature in black ink that reads "John Fazer". The signature is written in a cursive, flowing style.

John Fazer
Superintendent